FIDEICOMISO IRREVOCABLE F/1616 (DEUTSCHE BANK MEXICO, S.A. MULTIPLE BANKING INSTITUTION, TRUST DIVISION) AND SUBSIDIARY

**Notes to the Unaudited Condensed Consolidated Financial Statements**

As of March 31, 2018 and for the three-month period ended in such date

(In Thousands of Mexican pesos)

## (1) COMPANY'S ACTIVITY-

Trust F/1616 (Deutsche Bank Mexico, S.A. Multiple Banking Institution, Trust Division) and Subsidiary ("Fibra Inn" o the "Trust") was established on October 23, 2012, as a real estate trust by Asesor de Activos Prisma, Sociedad Anónima, Promotora de Inversión de Capital Variable (the "Trustor"), and Deutsche Bank Mexico, Sociedad Anónima, Institución de Banca Múltiple, División Fiduciaria (the "Trustee"). The Trust started operations on March 12, 2013. It was created mainly to acquire and own real estate, with a view to leasing commercial properties earmarked for the hospitality industry and providing related services.

Fibra Inn, as a real estate investment trust (Fideicomiso de Inversiones en Bienes Raices – "FIBRA"), meets the requirements to be treated as a transparent entity in Mexico in accordance with the Mexican Income Tax Law. Therefore, all proceeds from the Trust's operations are attributed to holders of its Real Estate Fiduciary Stock Certificates (Certificados Bursátiles Fiduciarios Inmobiliarios – "CBFIs") and the Trust F/1616 is not subject to income taxes in Mexico. In order to maintain its FIBRA status, the Tax Administration Service (Servicio de Administración Tributaria - SAT) established, in Articles 223 and 224 of the Income Tax Law for the period of 2013, that the Trust must annually distribute at least 95 percent of its net tax result to CBFIs holders. In accordance with the new Income Tax Law 2014, the articles related to the tax requirements of a FIBRA are 187, 188, which sustain the same characteristics as the previous law.

Administradora de Activos Fibra Inn, S.C. (AAFI) is a subsidiary of Fibra Inn, in which it holds a 99.9% ownership interest and has control, as defined in Note 2c) below. This entity provides support functions necessary to conduct the businesses of the Trust.

The Trust's legal address is Ricardo Margain Zozaya No. #605, Colonia Santa Engracia, in San Pedro Garza García, Nuevo León.

## (2) BASIS OF PREPARATION AND PRESENTATION-

### *(a) Statement of compliance*

The unaudited condensed consolidated financial statements of Fibra Inn have been prepared in accordance with International Accounting Standard ("IAS") 34 – Interim Financial Information as issued by the International Accounting Standards Board ("IASB").

### *(b) Basis of measurement and preparation*

The Trust´s unaudited condensed consolidated financial statements have been prepared on the basis of historical cost, except for the following items of the consolidated statement of financial position, which were measured at fair value:

a) derivative financial instruments;

b) property, furniture and equipment;

c) the net defined benefits liability is recognized as the fair value of plan assets, less the present value of the defined benefits obligation.

The historical cost is generally based on the fair value of the consideration granted in exchange of the assets.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique.

In estimating the fair value of an asset or a liability, Fibra Inn takes into account the characteristics of the asset or liability and if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. In addition, for financial reporting purposes, fair value measurements are categorized into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety. The different levels have been defined as follows:

- Level 1: quoted prices (unadjusted) in active markets for identical assets or liabilities.

- Level 2: inputs other than quoted prices included within Level 1, that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

- Level 3: inputs for the asset or liability are not based in observable market data (unobservable inputs).

The aforementioned condensed consolidated financial statements as of March 31, 2018 and for the three-month period ended March 31, 2018 have not been audited. Based on the opinion of management of Fibra Inn, all necessary adjustments have been included in order to achieve a fair view presentation of the accompanying unaudited condensed consolidated financial statements. The results of the interim periods are not necessarily indicative of the projected year results.

The accounting policies, critical judgements and key sources of estimation uncertainty applied for the recognition and measurement of assets, liabilities, revenues and expenses of the accompanying unaudited condensed consolidated financial statements are consistent with those applied and used in the audited financial statements for the year ended December 31, 2017, except for the new accounting policies generated by the adoption of the following pronouncements, as of January 1, 2018:

***IFRS 9, Financial Instruments***

IFRS 9, "Financial Instruments" is the replacement of IAS 39 "Financial Instruments: Recognition and Measurement". This standard is mandatorily effective for periods beginning on or after January 1, 2018 and includes the introduction of a new impairment model based on expected losses and limited changes to the classification and measurement requirements for financial assets. Specifically, the new impairment model is based on expected credit losses rather than incurred losses, and will apply to debt instruments measured at amortized cost or FVTOCI, lease receivables, contract assets and certain written loan commitments and financial guarantee contracts.

Regarding the impairment model based on expected losses, the initial adoption requirement of IFRS 9 is retrospective and establishes the option to adopt it without modifying the financial statements of previous years. On the other hand, in the case of hedge accounting, IFRS 9 allows the application with a prospective approach.

The Trust did not have a material impact associated with the new category of fair value measurement through other comprehensive results, as it currently does not have any instrument that qualifies for this treatment; however, potential impacts could arise if the investment strategy changes in the future. Additionally, in terms of hedge accounting, the requirements of IFRS 9 are consistent with the current accounting policy of the Trust under IAS 39, so no impact is anticipated on its initial adoption or in future hedge operations.

Finally, with respect to the new impairment model based on expected losses, management of the Trust chose to adopt the standard retrospectively, assigning to its clients different levels of probability of default, as well as estimating the severity of the loss in the event that this probability occurs. The implementation of the new impairment model implies a change in the accounting policy of the Trust, besides having some repercussions on the internal processes for the management of accounts receivable in line with the internalization processes. However, this change did not affect negatively the business activities or the contractual obligations of the Trust.

***IFRS 15, Revenue from Contracts with Customers***

IFRS 15, "Revenue from Contracts with Customers" is mandatorily effective for periods beginning on or after 1 January 2018. The standard outlines a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. In applying the revenue model to contracts within its scope, an entity will: 1) Identify the contract(s) with a customer ; 2) Identify the performance obligations in the contract; 3) Determine the transaction price; 4) Allocate the transaction price to the performance obligations in the contract; 5) Recognize revenue when (or as) the entity satisfies a performance obligation. For this purpose, under this standard, revenue recognition uses the definition of control to determine when a good or service is transferred to the client and the performance obligations have been satisfied. In addition, the number of disclosures required is increased for both annual and interim financial statements.

Fibra Inn determined that the adoption of IFRS 15 will be through the modified retrospective method as permitted by the corresponding transitional provisions, implying that any effect on the transition will be recognized directly in the retained earnings, without modifying the financial statements of previous years.

As part of its analysis process for the adoption of this standard, management of the Trust assessed the different sources of income with the existing agreements as of December 31, 2017, applying the five step model described above to determine whether there are potential inconsistencies with its current accounting policies in accordance with IAS 18, *Revenue*. However, no significant impacts were identified that should be recognized as of January 1, 2018 in the unaudited condensed consolidated financial statements.

***(c) Basis for financial statement consolidation***

The unaudited condensed consolidated financial statements include those of Fibra Inn and those of its subsidiary, Administradora de Activos Fibra Inn, S.C., of which it holds a 99.9% of capital stock and where it holds control. Control is achieved when Fibra Inn:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with an investee; and
- has the ability to affect those returns through its power over the investee.

Balances and transactions with the subsidiary company have been eliminated in the unaudited condensed consolidated financial statements.

***(d) Authorization of the financial statements***

The accompanying unaudited condensed consolidated financial statements were authorized for issuance by Ing. Oscar Eduardo Calvillo Amaya, Chief Executive Officer, and approved by the Technical Committee on April 24, 2018, represented by Ing. Victor Zorrilla Vargas as its President.

*(e) Income statement and comprehensive income statement*

Costs and expenses presented in the unaudited condensed consolidated income statement were classified according to their nature.

Fibra Inn shows line items of gross margin and operating income since they are considered important performance indicators for the users of financial information. Income and expenses with operating nature are presented within this line item.

The Trust presents in the statement of comprehensive income those accounting items that were already accrued but are still pending to be realized.

*(f) Statement of cash flows*

Fibra Inn presents its statement of cash flows using the indirect method.

*(g) Seasonality*

The hotel industry in which Fibra Inn operates is exposed to seasonal fluctuations in the demand of business travelers, which may impact the distribution of dividends to the holders of CBFIs, mainly determined by factors such as the availability of rooms, occupancy rates and average rates.

Therefore, the operating results for one quarter are not necessarily indicative of the operating results of a full year, and the historical operating results, are not necessarily indicative of the future results, coupled with acquisitions and contributions of properties that could be realized in each period and associated risks with the real estate industry.

## (3) CASH AND CASH EQUIVALENTS-

| | | As of March 31, 2018 | As of December 31, 2017 |
|---|---|---|---|
| Cash in banks | $ | 108,874 | 76,489 |
| Cash equivalents (government bonds) | | 337,913 | 431,497 |
| Total cash and cash equivalents | $ | 446,787 | 507,986 |

Article 187 clause III of the Mexican Income Tax Law establishes that the capital contribution that was not utilized to acquire properties must be invested in government bonds that are registered with the National Securities Register, shares of investment entities or debt instruments. During the period, the Trust was in compliance with this article and invested the remaining contributed capital in different funds with high credit rating.

## (4) PROPERTY, FURNITURE AND EQUIPMENT-

| | | As of March 31, 2018 | As of December 31, 2017 |
|---|---|---|---|
| Land | $ | 2,018,551 | 2,139,135 |
| Buildings | | 7,241,737 | 7,577,839 |
| Components of buildings | | 611,022 | 438,193 |
| Machinery and equipment | | 702,432 | 337,783 |
| Furniture and equipment | | 586,889 | 469,683 |
| | | 11,160,631 | 10,962,633 |
| Less accumulated depreciation | | (810,467) | (1,031) |
| Less impairment of properties | | - | (584,532) |
| | | 10,350,164 | 10,377,070 |
| Constructions in progress | | 255,750 | 183,277 |
| **Total** | $ | 10,605,914 | 10,560,347 |

As a result of measuring property, plant and equipment at their fair value starting the year ended December 31, 2017, the Trust recognized a revaluation surplus in equity of $2,802,541 and an impairment expense of $584,532 for the year ended in such date. As of March 31, 2018, the fair value of property, furniture and equipment did not differ significantly from the recognized values as of December 31, 2017.

## (5) TRUSTORS' EQUITY-

***Contributions-***

a) The Trust´s equity consists of a contribution of $20 and of the proceeds of the issue of CBFIs.

***Distributions-***

a) On February 27, 2018, based on the terms and conditions established in Appendix 12.9 of the Trust's Contract, the Technical Committee announced a cash distribution from the capital reimbursement for the period from October 1, 2017 to December 31, 2017, which was paid on March 15, 2018. The total payment in Mexican pesos amounted to $110,005 with a value of 0.2518 per outstanding CBFI.

b) During the three month period ended March 31, 2018, Fibra Inn repurchased CBFIs for an amount of $13,465.

## (6) ACQUISITION OF HOTELS-

Fibra Inn determines the classification of the acquired hotels based on the fact that such hotels will be used in the normal course of business. The transactions related to the acquisition of hotels are accounted as business acquisitions. Such transactions are performed to continue with the expansion of operating activities related to the hotel industry in Mexico, in accordance with the established growth and expansion plans.

During the three month period ended March 31, 2018, Fibra Inn didn't acquire or begin any hotel development. However, on March 6, 2018, Fibra Inn signed a Purchase Option Contract for the development of the Westin Monterrey hotel, in case of exercising this option, Fibra Inn will have to pay a fixed price and a variable price. The fixed price amounts to $700,000 while the variable price (earn out) is conditioned to the performance of the hotel within the first 4 years of operation. As a result of this contract, a payment of $50,000 was made as security deposit, which when exercising the option will be taken as part of the agreed price or will be returned as agreed by the parties. The Westin Monterrey Hotel will be located in the city of San Pedro Garza García, Nuevo Leon and will generate revenues within the full service segment.

## (7) OTHER RELEVANT EVENTS-

a) On February 15, 2018, Fibra Inn issued Fiduciary Investment Trust Certificates ("CBFs") conducted through two simultaneous processes: a Debt Tender Offer through the partial and early repurchase of FINN 15 debt, issued on September 30, 2015, for a total of $1,875,350 due 2021; and a debt issuance FINN 18 at a fixed interest rate of 9.93% and with maturity in February 2, 2028 for $2,000,000. The updated amount of the FINN 15 issuance is $1,000,000, therefore the total of both issuances amounts $3,000,000. The new issuance of CBFs FINN 18 is under the debt program for up to $5,000,000 that was approved by the Mexican Banking and Securities Commission. As a result, the current liability from debt obligations increased from December 31, 2017 to March 31, 2018 from $ 6,059 to $ 21,071.

b) For the three month period ended March 31, 2018, Fibra Inn recognized an effect of valuation of derivative financial instruments of $19,773 as a result of the cancellation of cash flow hedges previously held on the debt issuance FINN 15 and as a result of the valuation of derivative financial instruments held for trading purposes.

c) For the three month period ended March 31, 2018, Fibra Inn recognized acquisition and organization expenses of $6,506 whereas in the three month period ended March 31, 2017 it recognized expenses of $2,446. The increase corresponds to a greater disbursement of organizational expenses, which are part of the strategy of improvements in the operation and the growth of developments of the Trust.

## (8) NEW IFRS NOT YET ADOPTED-

Fibra Inn has not applied the following new and revised IFRS that has been issued but is not yet effective as of March 31, 2018.

***IFRS 16, Leases***

IFRS 16 "Leases" was issued in January 2016 and supersedes IAS 17 "Leases" and related interpretations. The new standard brings most leases on-balance sheet for lessees under a single model, eliminating the distinction between operating and finance leases. Lessor accounting, however, remains largely unchanged and the distinction between operating and finance leases is retained. IFRS 16 is effective for periods beginning on or after 1 January 2019, with earlier adoption permitted if IFRS 15 'Revenue from Contracts with Customers' has also been applied.

Under IFRS 16 a lessee recognizes a right-of-use asset and a lease liability. The right-of-use asset is treated similarly to other non-financial assets and depreciated accordingly and the liability accrues interest. This will typically produce a front-loaded expense profile (whereas operating leases under IAS 17 would typically have had straight-line expenses) as an assumed linear depreciation of the right-of-use asset and the decreasing interest on the liability will lead to an overall decrease of expense over the reporting period.

The lease liability is initially measured at the present value of the lease payments payable over the lease term, discounted at the rate implicit in the lease if that can be readily determined. If that rate cannot be readily determined, the lessee shall use their incremental borrowing rate.

However, a lessee may elect to account for lease payments as an expense on a straight-line basis over the lease term for leases with a lease term of 12 months or less and containing no purchase options (this election is made by class of underlying asset); and leases where the underlying asset has a low value when new, such as personal computers or small items of office furniture (this election can be made on a lease-by-lease basis).

IFRS 16 establishes different transitional provisions, including retrospective application or the modified retrospective application where the comparative period is not restated.

Management of Fibra Inn is in the process of determining the implications of the adoption of IFRS 16 on its financial position, in addition to its internal processes and fulfillment of contractual obligations, as a result of the existence of some agreements currently recorded as operating leases. However, the Trust does not show any significant effects due to the fact that it mainly maintains leases where it operates under the figure of lessor. The lease agreements where Fibra Inn operates under the figure of lessee are mainly related to the rental of transportation equipment which is used as part of the hotel operation, and may represent the recognition of the rights of use and the liability for the corresponding lease, in accordance with the requirements of IFRS 16. Nevertheless, the impacts of such contracts has not yet been determined on the recognition of an asset and liability for the future lease payments and how this could impact the results of operations and classification of cash flows of the Trust. Fibra Inn will be adopting a modified retrospective transition, quantifying the impacts with the contracts in force as of December 31, 2018 and recognizing them as an adjustment to retained earnings as of such date.